



Iowa Seniors Receive a Tax Break

By Amy K. Frantz

This spring, the Iowa Legislature provided tax relief for seniors in our state. Senate File (SF) 2408 provides a two-part tax cut that will provide tax relief for many Iowans age 65 and over, beginning in tax year 2007. Reducing the tax burden on Iowa's seniors may help them decide to remain in the state once they retire.

The senior tax relief legislation was adopted with bipartisan support, passing the Iowa Senate with a vote of 46-4 and the Iowa House with a similar showing of the bill's support, 89 ayes and 6 nays.¹ The Governor signed the bill into law on May 22, 2006. State Representative Jamie Van Fossen, Chairman of the House Ways and Means Committee, called SF 2408 "the crown jewel of our work" for the 2006 session.²

SF 2408 phases out the state income tax on Social Security benefits over an eight-year period. Thirty-two percent of taxable Social Security benefits will be exempt from state income taxation beginning with the 2007 tax year. The amount of taxable Social Security benefits that are exempt from taxation will continue to increase until 100 percent of Social Security benefits are not taxed in tax year 2014 and beyond (see Figure 1.).

Figure 1. Phase-Out of Tax on Social Security Benefits³

Tax Year	% of Taxable Social Security Income exempt from State Income Tax
2007	32
2008	32
2009	43
2010	55
2011	67
2012	77
2013	89
2014	100

The legislation also increases the number of Iowa seniors who will no longer have to pay state income taxes. Under the law prior to the passage of SF 2408, single tax filers with a net income of no more than \$9,000, and all other filers with a net income of no more than \$13,500, were not required to pay Iowa income taxes.⁴

For tax years 2007 and 2008, Iowa seniors age 65 and older will not have to pay state income taxes if their income is at or below \$18,000 for single filers and \$24,000 for all other filers. From then on (tax

year 2009 and beyond) Iowa seniors will not have to pay Iowa income taxes if their income is at or below \$24,000 for single filers and \$32,000 for all other filers.⁵

State Senator David Miller, the floor manager of SF 2408 in the Senate, said of the legislation's passage, "This bill sends a message that we value and appreciate our seniors. It will help keep our seniors from leaving Iowa for lower-tax states and taking their financial, philanthropic, and civic contributions with them."⁶ While Iowa's income tax burden may not be the lone factor in where Iowa seniors choose to live, it certainly is one of the considerations. As Public Interest Institute President Dr. Don Racheter pointed out in a February 2006 *INSTITUTE BRIEF*:

An Iowa retiree does not say "I don't like Iowa's cold winters, so I think I will move to South Dakota because they won't tax my retirement income." Rather, such an individual would say, "Since I want to move to a state with a warmer climate, should I pick Arizona or New Mexico, Texas or Louisiana, Alabama or Florida? Which ones tax my retirement income and which ones don't?"⁷

Thanks to the Iowa Legislature, Iowa's seniors will face smaller tax bills from the state in the coming years. The decreasing tax burden on Iowans age 65 and older may be an incentive for seniors to spend their golden years in Iowa.

Endnotes:

¹ Bill History for SF 2408, Iowa Legislature, n.d., <<http://coolice.legis.state.ia.us/Cool-ICE/default.asp?Category=BillInfo&Service=DspHistory&var=SF&key=0992B>> (August 7, 2006).

² Rep. Jamie Van Fossen, *The Week in Review*, May 5, 2006, <<http://www.jamievanfossen.com/week.htm>> (August 7, 2006).

³ *Ibid.*

⁴ Iowa Income Tax FAQ's, Iowa Department of Revenue, n.d., <<http://www.state.ia.us/tax/educate/faqinc.html#8>> (August 7, 2006).

⁵ Van Fossen.

⁶ Kimberly Steenhoek, "Senate Approves \$118 Million in Tax Relief for Iowa's Seniors," Senate Republican Caucus News Release, May 2, 2006, <<http://iowasenateRepublicans.org/News%20Releases/Miller/Miller,%20Senior%20Tax%20Relief,%20May%202.htm>> (May 16, 2006).

⁷ Dr. Donald P. Racheter, "Iowa Tax Policy and Outmigration," Public Interest Institute *INSTITUTE BRIEF*, February 2006, Volume 13, No. 7, <<http://www.limitedgovernment.org/publications/pubs/briefs/pdfs/brf13-7.pdf>>.

For more on the impact of the tax burden on migration between the states, see also Amy K. Frantz, "Americans Vote with Their Feet for Lower Taxes," Public Interest Institute *INSTITUTE BRIEF*, February 2006, Volume 13, No. 8, <<http://www.limitedgovernment.org/publications/pubs/briefs/pdfs/brf13-8.pdf>>.

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